

**Management Advisory Report: Significant
Efforts Have Been Made to Address the Large
and Mid-Size Business Division's Human
Capital Concerns, but a Formal Workforce
Planning Model Has Not Been Developed**

August 2001

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 20, 2001

MEMORANDUM FOR COMMISSIONER, LARGE AND MID-SIZE BUSINESS
DIVISION

A handwritten signature in black ink, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report - Significant Efforts Have
Been Made to Address the Large and Mid-Size Business
Division's Human Capital Concerns, but a Formal Workforce
Planning Model Has Not Been Developed

This report presents the results of our review of whether the Internal Revenue Service's (IRS) Large and Mid-Size Business (LMSB) Division's strategy to retain, recruit, and train employees sufficiently manages its customer service and compliance risks. In summary, the LMSB Division has implemented several programs that will assist in strengthening its human capital. However, it could enhance its position by coordinating with Strategic Human Resources (SHR) in implementing an IRS-wide workforce planning model under executive leadership.

In commenting on a draft of the report, the Commissioner, LMSB Division, agreed that the Division needs a comprehensive workforce planning model. However, the Commissioner is concerned about the identification of workforce planning deficiencies for the LMSB Division alone. He maintained that these deficiencies exist as corporate deficiencies for the IRS as a whole, and that SHR has developed models, processes, and a methodology to address these deficiencies, which will be rolled out to the business units. The Division will implement SHR's proposals, develop LMSB-specific actions, and take action to strengthen the oversight of human capital matters. We have incorporated the comments into the report where appropriate, and the complete response to the draft report is included as an appendix.

Copies of this report are also being sent to IRS officials who are affected by the recommendations. Please contact me at (202) 622-6510 if you have questions or

Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs) at (202) 622-3837.

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Objective and Scope

The objective of this review was to determine whether the LMSB Division's strategy to retain, recruit, and train employees sufficiently manages its customer service and compliance risks.

The objective of this review was to determine whether the Large and Mid-Size Business (LMSB) Division's strategy to retain, recruit, and train employees sufficiently manages its customer service and compliance risks.

To assess the Division's management of human capital, we:

- Reviewed documentation of its workforce planning efforts and interviewed management involved with recruiting, retaining and training the Division's staff.
- Determined whether the human resources planning process results in the identification of skills and competencies needed to accomplish future organizational goals and objectives.
- Determined whether there was a human resource management system in place.

We conducted the review at LMSB Division Headquarters in Washington, DC. The review was performed in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections* from October 2000 through April 2001.

Major contributors to this report are listed in Appendix I. Appendix II contains the Report Distribution List.

Background

Many Federal departments and agencies are moving towards becoming results-based organizations. Leading results-based organizations understand that effectively managing their employees is essential to achieving

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Inadequate attention to strategic human capital management has created a government-wide risk of eroding agencies' abilities to perform their missions.

results. Human capital planning must be an integral part of an organization's strategic and program planning.

The General Accounting Office (GAO) considers strategic human capital management as a high-risk area for the government, and the President's Fiscal Year (FY) 2001 budget has added human capital to its list of Priority Management Objectives. Inadequate attention to strategic human capital management has created a government-wide risk of eroding the capacity of some agencies to economically, efficiently, and effectively perform their missions.

The Internal Revenue Service's (IRS) reorganization during FY 2000 created four business divisions. The LMSB Division serves approximately 224,000 corporations and partnerships that have the most complex tax issues. When the LMSB Division was created, many employees experienced in complex tax issues were assigned to the Division. Within 5 years, around 4,800 (67 percent) of the Division's approximately 7,200 employees will be eligible to retire.

Results

The LMSB Division has taken a number of positive actions that will help strengthen its human capital but could enhance its strategic initiative by developing a formal workforce planning model under executive leadership.

The LMSB Division has identified the recruiting, retaining, and training of a highly skilled workforce as one of its strategic initiatives in its FY 2001 Annual Business Plan. The LMSB Division's Office of Performance, Quality, and Innovation has taken a number of positive actions that will assist in strengthening human capital. For example:

- An Accelerated Skill Attainment Program addresses both current and future skill needs within the Division. Through this program, employees can attain the highest degree of professional credentials and knowledge.

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- A Coaching/Mentoring Implementation Plan assists with current employees' retention of skills and ensures that new employees develop needed skills.
- An Innovation Recognition process empowers employees by encouraging them to contribute their ideas openly and by acknowledging and sharing the ideas.
- A Divisional organization health study will fine-tune organizational measures by identifying key operating processes, setting measurable performance goals, and tracking progress. The study is based on the Malcolm Baldrige National Quality Award Program and the President's Quality Award (PQA) Program. The GAO has cited the Baldrige and PQA criteria in several reports as a method of effectively measuring an organization's management of human capital.

We identified two areas that require additional attention: developing a workforce planning model and designating executive leadership for the Strategic Human Capital process.

A Workforce Planning Model Needs to be Developed

While the LMSB Division's Compliance Workplan and Workload Study provided a guideline to determine workloads, it did not identify competencies and needs.

In February 2001, the LMSB Division's Office of Strategy, Research, and Program Planning completed a Compliance Workplan and Workload Study to enhance workload identification in the Division. This study provided a guideline to determine where its current and future workload of cases would be located. While a step in the right direction, the study did not: (1) identify the competencies which staff members currently possess, (2) identify the competencies needed to achieve current and future goals, and (3) assess the gaps between these two sets of competencies. Further, current recruiting efforts in the Division are not strategically based, and

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hiring practices are focused on filling vacancies remaining from the prior organizational structure.

Workforce planning should be done concurrently with the development of an organization's strategic plan. Workforce planning allows management to make more informed decisions regarding long-term investments. Information is provided to determine the right combinations and amounts of training, recruiting, and worklife programs needed to build the workforce to accomplish program goals and objectives.

Workforce planning ensures that the organization has the human resources it needs to accomplish its mission. The organization must assess the content of future work and the kind of workforce required to perform it. It is especially important to track changes and identify factors which may change the agency's mission or program priorities. All of these results are then compared to the characteristics of the current workforce and gaps are identified. These gaps form the basis for identifying strategies and actions to prepare the workforce to meet future needs.

The LMSB Division does not have an HRMS, but a Treasury-wide initiative, HR Connect, will provide some key aspects of workforce planning.

Workforce planning is a continuous process. While the LMSB Division does not have a human resource management system (HRMS) with which to monitor this process, there is a Treasury-wide initiative to provide for an HRMS. The IRS' Agency-Wide Shared Services will begin the pilot implementation of HR Connect. HR Connect is a Treasury-wide initiative and refers to the Peoplesoft Human Resources Management System. The primary function of HR Connect is the automation of various personnel and human resources-related processes. It will also provide tools for performance management, succession planning, and career planning, and will allow the IRS' business divisions to access their inventory of employee skills and plan for future needs.

The Division did not establish a workforce planning model in part because of the significant challenges in managing the organizational stand-up in FY 2000.

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Management concentrated its human capital efforts on developing processes rather than an overall strategy. Additionally, Strategic Human Resources (SHR) officials are developing an IRS-wide workforce planning model, which they expect to present to the IRS' Commissioner in July 2001. This model identifies the core and technical competencies of positions within the IRS.

Without effective workforce planning, the LMSB Division may be vulnerable to risks in addressing present and anticipated workforce issues. The Division may not be able to identify the competencies and skills needed in the workforce to meet its organizational mission and goals. The continuing attrition of the Division's experienced employees erodes its ability to provide customer service and take effective compliance actions. This affects the IRS' ability to provide service to all taxpayers in all respects of tax administration.

Recommendation

The Commissioner, LMSB Division, should:

1. Coordinate with Strategic Human Resources to implement the IRS-wide workforce planning model that encompasses all organizational components. The model would identify strategic workforce requirements and be used in developing the strategic plan and budget.

Management's Response: The Compliance Workplan and Workload Study was a major step in defining the LMSB Division's workload. The Division is working with this data to identify locations that need additional staffing. This data and the HRMS will be used to promote more effective human capital management in the future. Additionally, the SHR is working at the corporate level to address these deficiencies for the IRS. The Division will implement the SHR's models,

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processes and guidance, and will also develop LMSB Division-specific actions.

An Executive Should Lead the Workforce Planning Effort

Top leadership commitment is the single greatest determinant of the success or failure of a workforce planning program.

According to best practices in various Federal agencies, a systematic approach to workforce planning can facilitate more efficient and accurate alignment of the workforce to meet its organizational goals, commitments, and priorities. Among these best practices, top leadership commitment is the single greatest determinant of the success or failure of a workforce planning program.¹ Additionally, the GAO has defined senior leadership's support as essential to becoming a high-performance organization.

A responsible executive should lead the workforce planning process. However, because elements of the initiative were divided among several functions within the Division, no single LMSB Division executive was placed in charge and given overall responsibility for the results of the Division's workforce initiative. The head of an organization and the leadership team are the only ones who can draw the critical linkages among the direction of an organization, a process that produces the next generation of workers, and the priority to develop new employees to produce future results.

Recommendation

The Commissioner, LMSB Division, should:

2. Elevate the responsibility and execution of the Division's role in the IRS-wide workforce planning model to a single executive. The most likely

¹ This is a conclusion based on extensive Department of Transportation research in both the public and private sectors.

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executive would be the Deputy Commissioner, whose responsibilities and authorities include integrating strategic workforce issues with the strategic management and budget process. However, if another executive reporting to the Deputy Commissioner is deemed more appropriate for the responsibility to execute workforce planning, then the authority should be delegated to that executive.

Management's Response: The Commissioner, LMSB Division, did not agree to fully implement this recommendation. As an alternative, the LMSB Division could designate a sole responsible executive to oversee workforce planning. Another solution the Division proposed is to improve the communication between the Deputy Director, Strategy, Research and Program Planning, and the Director, Management and Finance, who both play important roles in the effective management of human capital. The Director, Management and Finance, has been designated as the primary contact for human capital matters.

Conclusion

The LMSB Division is facing a maturing workforce whose attrition could deplete the skill and knowledge base. While the Division has begun to implement processes to maintain its skilled workforce, it does not have a formal workforce planning strategy. A workforce planning strategy allows an organization to develop plans to address its identified future needs and continue to achieve its organizational goals and objectives. Only when the right employees are on board and are provided the training, tools, structures, incentives, and accountability to work effectively is organizational success possible.

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Appendix I

Major Contributors to This Report

Gordon Milbourn III, Assistant Inspector General for Audit (Small Business and
Corporate Programs)

Philip Shropshire, Director

Richard Hayes, Audit Manager

Donna Saranchak, Senior Auditor

Carole Connolly, Auditor

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Appendix II

Report Distribution List

Commissioner N:C
Deputy Commissioner N:DC
Chief Counsel CC
Director, Strategic Human Resources N:ADC:H
Director, Communications and Liaison, Large and Mid-Size Business Division LM:CL
Director, Management and Finance, Large and Mid-Size Business Division LM:M
Director, Performance, Quality and Innovation, Large and Mid-Size Business Division
LM:Q
Director, Strategy, Research and Program Planning, Large and Mid-Size Business
Division LM:SR
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
National Taxpayer Advocate TA
Office of Management Controls N:CFO:F:M
Audit Liaisons:
Commissioner, Large and Mid-Size Business Division LM
Director, Strategic Human Resources N:ADC:H

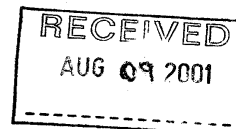
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Appendix III

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



AUG - 9 2001

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: *for* Larry R. Langdon *Deborah M. Folsom*
Commissioner, Large and Mid-Size Business Division (LMSB)

SUBJECT: Response to Management Advisory Report -- Significant Efforts Have Been Made to Address the Large and Mid-Size Business Division's Human Capital Concerns, but a Formal Workforce Planning Model Has Not Been Developed (Audit No. 200130006)

Thank you for the opportunity to review and comment on the subject draft report. I appreciate your recommendations for developing a workforce planning model and designating executive leadership for the Strategic Human Capital process.

I agree LMSB needs a comprehensive workforce planning model. However, I am concerned about your identification of workforce planning deficiencies for LMSB alone. Discussions between your staff, Strategic Human Resources (SHR), and my staff identified these deficiencies as corporate deficiencies for the IRS, overall. I am certain your investigation of other business units will also identify the same deficiencies. To begin to address these deficiencies, SHR developed models, processes, and a methodology we will roll out to the business units.

You accurately described positive actions we took in LMSB to strengthen human capital. The implementation of a Human Resource Management System (HR Connect) by SHR, and the development of an IRS-wide workforce planning model will provide a foundation for workforce planning. The SHR is also developing a model to identify core and technical competencies for positions. For more information about these corporate initiatives, please contact SHR management. We will implement these initiatives and consider others to address business-unit specific gaps in workforce planning.

Our comments to the findings and recommendations as stated in your draft report are as follows:

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IDENTITY OF RECOMMENDATION/FINDING #1:

Recommendation:

Coordinate with Strategic Human Resources to implement the IRS-wide workforce planning model that encompasses all organizational components. The model would identify strategic workforce requirements and be used in developing the strategic plan and budget.

Finding:

The Compliance Workplan and Workload Study to enhance workload identification in the Division did not (1) identify the competencies which staff members currently possess, (2) identify the competencies needed to achieve current and future goals, and (3) assess the gaps between these two sets of competencies. Further, current recruiting efforts in the Division are not strategically based, and hiring practices are focused on filling vacancies remaining from the prior organizational structure. The LMSB Division does not have a Human Resource Management System (HRMS) with which to monitor workforce planning.

ASSESSMENT OF CAUSE(S):

As previously-stated, I view identified deficiencies as corporate rather than an LMSB-specific deficiencies. The IRS did not address these deficiencies before the reorganization. With the reorganization behind us, these deficiencies have become more pronounced and the need to develop the framework, models, processes and guidance has increased. The SHR is taking steps to address these needs. We will assess the outcome of these actions and will take additional steps to address any LMSB-specific needs.

CORRECTIVE ACTIONS:

Our Compliance Workplan and Workload Study was a major step in defining LMSB workload. We are working with this data to identify locations that need additional staffing. In the future, we plan to use this data and the Human Resources Management System to promote more effective human capital management.

As previously stated, SHR is working at the corporate level to address these deficiencies for the IRS. These deficiencies are not new and exist throughout the IRS. We will implement the models, processes, and guidance SHR is developing to address these issues.

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IMPLEMENTATION DATE:

The SHR corporately owns these actions. They targeted July 2001 for completion of the IRS-wide workforce planning model. In addition, SHR will develop over the next few months the other component, to address the core and technical competencies. We will assess these actions and implement them within the proposed SHR implementation dates. In addition, we will develop LMSB-specific actions within 60 days following SHR implementation.

ESTIMATED DATE: October 30, 2001 (for implementation of SHR model in LMSB)

RESPONSIBLE OFFICIAL(S):

Director, Strategic Human Resources
LMSB Director, Management and Finance
LMSB Director, Strategy, Research and Program Planning

CORRECTIVE ACTION(S) MONITORING PLAN:

The LMSB HR Planning will assess the actions implemented by SHR through sampling, testing, and reviewing. Within 60 days after implementation, LMSB HR Planning will recommend additional actions, as needed. The LMSB executives (Director, Management and Finance and Deputy Director, Strategy, Research and Program Planning) will jointly examine the recommended actions.

IDENTITY OF RECOMMENDATION/FINDING #2:

Recommendation:

Elevate the responsibility and execution of the Division's role in the IRS-wide workforce planning model to a single executive. The most likely executive would be the Deputy Commissioner, whose responsibilities and authorities include integrating strategic workforce issues with the strategic management and budget process. However, if another executive reporting to the Deputy Commissioner is deemed more appropriate for the responsibility to execute workforce planning, then the authority should be delegated to that executive.

Finding:

No single LMSB Division executive was placed in charge and given overall responsibility for the results of the Division's workforce initiative because elements of the initiative were divided among several functions within the Division.

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ASSESSMENT OF CAUSE(S):

In LMSB, workforce planning has been primarily overseen by two Headquarters executives: the Deputy Director, Strategy, Research and Program Planning and the Director, Management and Finance. Both play important roles in the effective management of human capital to meet LMSB's organizational mission. That sharing of responsibility may have caused some confusion.

CORRECTIVE ACTIONS:

I do not agree with the full implementation of this recommendation. As an alternative, we could designate a sole responsible executive to oversee workforce planning. Another solution is to improve the communication and sharing of expectations between these two LMSB operations. I believe the split in responsibility provides a good balance for LMSB. I designated the Director of Management and Finance as the primary contact for human capital matters, effective July 30, 2001.

IMPLEMENTATION DATE:

COMPLETED: 7/30/01

RESPONSIBLE OFFICIAL(S):

LMSB Director, Management and Finance – Primary contact
LMSB Deputy Director, Strategy, Research and Program Planning.

CORRECTIVE ACTION(S) MONITORING PLAN:

Not Applicable

If you have any questions, please contact James O'Malley, Director, Management and Finance at (202) 283-8507 or Gene Sexton, Human Resources Manager at (202) 283-8592.